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Rexall Drug and Chemical Company

1960 ANNUAL REPORT

Rexall

BOARD OF DIRECTORS

CHESTER W. ANDERSON	Los Angeles, California
EARL E. ANDERSON	Montclair, New Jersey
WILLIAM K. ARCHER	Kansas City, Missouri
JOHN BOWLES	Los Angeles, California
ERNEST R. BREECH *Elected Mar. 7, 1961*	Bloomfield Hills, Michigan
JOHN C. CORNELIUS	Minneapolis, Minnesota
JUSTIN W. DART	Los Angeles, California
PAUL A. DRAPER	Boston, Massachusetts
ROLAND F. HALLETT	Los Angeles, California
F. THATCHER LANE	Litchfield, Connecticut
WALTER T. LILLIE	Los Angeles, California
GEORGE L. MAISON, M.D.	Northridge, California
ADÉ SCHUMACHER	Greenwich, Connecticut
JAMES E. SHELTON	Los Angeles, California
HOLMES TUTTLE	Los Angeles, California
HAMER WILSON *Elected Jan. 31, 1961*	Orlando, Florida

EXECUTIVE COMMITTEE

JUSTIN W. DART, Chairman	Los Angeles, California
EARL E. ANDERSON	Montclair, New Jersey
PAUL A. DRAPER	Boston, Massachusetts

AUDIT COMMITTEE

EARL E. ANDERSON, Chairman	Montclair, New Jersey
JOHN C. CORNELIUS	Minneapolis, Minnesota
PAUL A. DRAPER	Boston, Massachusetts

OFFICERS

JUSTIN W. DART	President
CHESTER W. ANDERSON	Vice President, Proprietary Drug and Retail Division
DONALD H. BREWER	Vice President, Plastic Processing Division
ROLAND F. HALLETT	Vice President and General Counsel
ROBERT L. KING	Vice President, Industrial Relations and Public Relations
RALPH M. KNIGHT	Vice President, Chemical Division
WALTER T. LILLIE	Vice President and Treasurer
BERT K. HENRY	Controller
BENJAMIN H. DORMAN	Secretary

TRANSFER AGENTS

Morgan Guaranty Trust Company of New York, New York
Second Bank-State Street Trust Company, Boston
Bank of America National Trust & Savings Association, Los Angeles

REGISTRARS

The Chase Manhattan Bank, New York
The National Shawmut Bank of Boston, Boston
United California Bank, Los Angeles

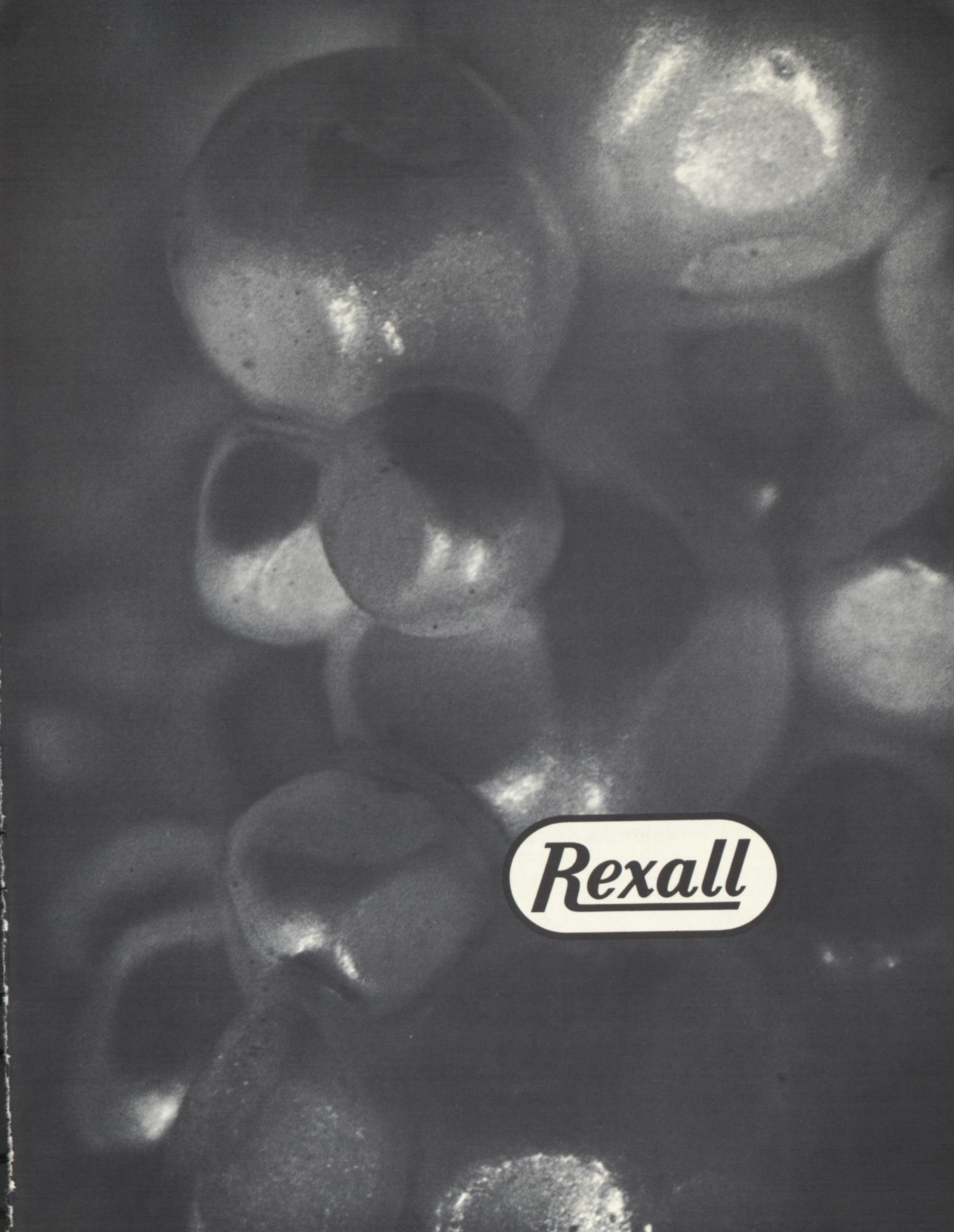
INDEPENDENT AUDITORS

Price Waterhouse & Co.

HEADQUARTERS

Rexall Square, 8480 Beverly Blvd., Los Angeles 54, California

Beads of polystyrene, magnified 25 times, are shown in this macro-photograph. Polystyrene is a hard plastic used in the manufacture of appliances, electrical equipment, building materials, toys and novelties, and in packaging. It is presently manufactured by Rexall in several locations.


Rexall

The Year in Brief

	1960	1959
OPERATIONS		
Net Sales	**$242,557,169**	$227,015,721
Net Earnings	**$9,359,694**	$8,753,194
Per Share	**$2.33**	$2.30
NUMBER OF SHARES		
Average during year	**4,013,717**	3,801,549
Outstanding at year end	**4,104,397**	3,832,639
AT YEAR END		
Current Assets	**$102,499,449**	$ 90,120,192
Less: Current Liabilities	**31,580,264**	33,243,683
Working Capital	**$ 70,919,185**	$ 56,876,509
Long Term Debt	**$ 38,697,794**	$ 29,930,895
Stockholders' Equity	**$ 86,564,110**	$ 72,048,521
Per Share	**$21.09**	$18.80
DIVIDENDS—Per Share		
Cash	**$ 0.50**	$ 0.50
Stock	**3%**	3%

The President's Letter to the Stockholders

NET earnings of your Company increased slightly in 1960. For the year they amounted to $9,359,694 or $2.33 per share as compared with $8,753,194 or $2.30 per share for 1959. This was the ninth consecutive year of increased earnings.

During the year your Company entered into a substantial joint operating agreement with El Paso Natural Gas Products Company, a subsidiary of El Paso Natural Gas Company. This joint arrangement will produce ethylene, propylene, conventional polyethylene, linear polyethylene and polypropylene. The new undertaking marks another major step in the chemical operations of your Company. It provides the raw materials for a broadly based chemical program in the future. To finance a part of Rexall's share of this project a loan of $35,000,000 has been arranged with a group of insurance companies. No common stock or other equity financing will be required. Plant construction for the new venture has already been started in Odessa, Texas, and production should begin early in 1962.

We are currently establishing manufacturing facilities for plastic processing operations in the European Common Market and in England and Australia. In addition, a joint operating arrangement for the manufacture of polyethylene in Europe is under consideration.

The expense of the chemical program and the expense of foreign activities will be heavy during the current year. Despite these factors, we believe that 1961 will be another good year for your Company.

Your ethical drug subsidiary, Riker Laboratories, Inc., made greater gains during the past year than in any year since its founding. Riker's research laboratories and production facilities will be substantially enlarged during the course of the current year.

We hope you will be able to attend the annual meeting of the stockholders which will take place at the Company's headquarters in Los Angeles on April 18, 1961. If you are unable to be present, please exercise your right to vote by signing and returning the proxy forms you will receive with the meeting notice.

Sincerely,

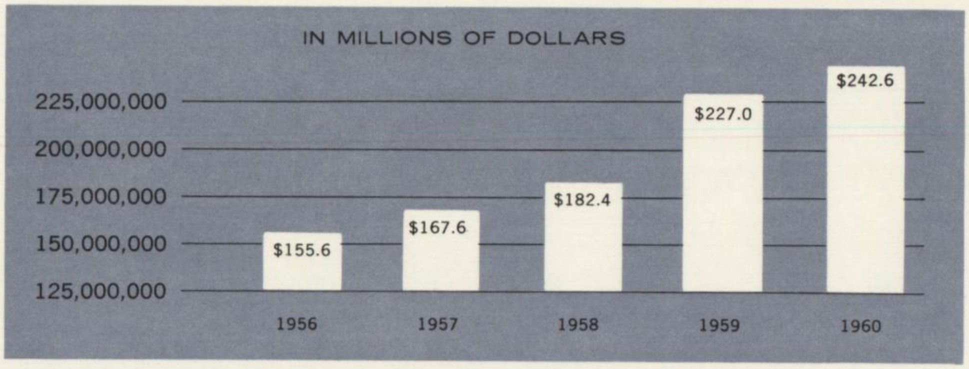
Justin Dart

JUSTIN DART, *President*

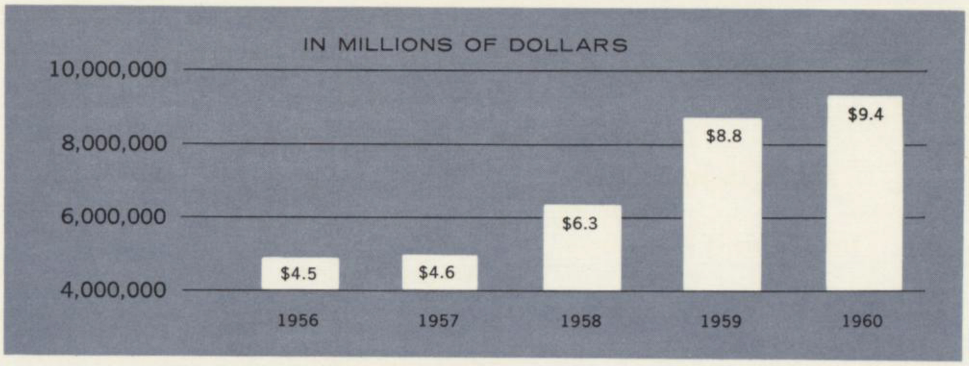
Los Angeles, California
March 15, 1961

Rexall Five Year Growth Record

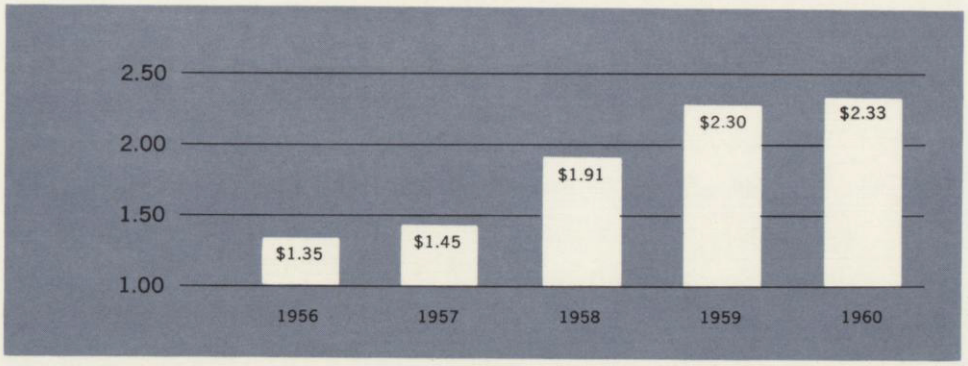
NET SALES



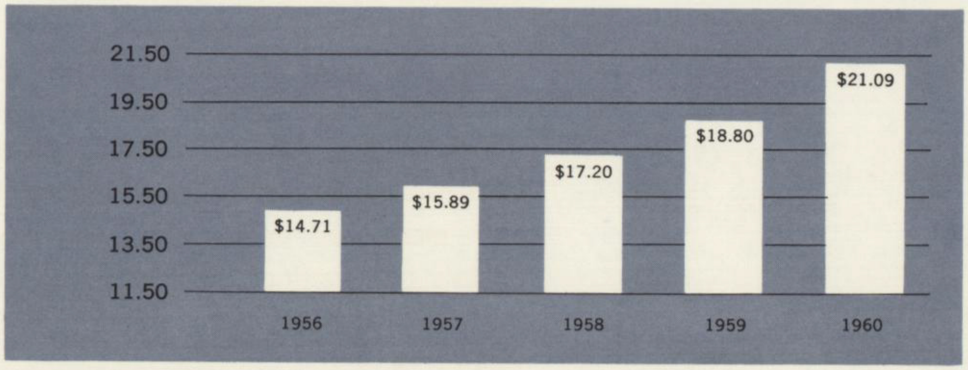
NET EARNINGS



EARNINGS PER SHARE



BOOK VALUE PER SHARE



REVIEW OF OPERATIONS

Financial

In 1960 net sales of all Company products were $242,557,169 as compared with $227,015,721 for 1959, an increase of $15,541,448 or 6.8 per cent.

Ninth Consecutive Year of Increased Earnings

The Company and its consolidated subsidiaries showed net earnings of $9,359,694 for 1960, as compared with $8,753,194 for 1959, an increase of $606,500 or 6.9 per cent. The per share equivalents were $2.33 for 1960 on 4,013,717 shares, the average number outstanding during the year. This compares with $2.30 per share for 1959 on 3,801,549 shares, the average number outstanding during that year. On December 31, 1960, there were 4,104,397 shares outstanding as compared with 3,832,639 outstanding at the end of the prior year.

Earnings before taxes were $17,759,694 in 1960 as compared with $17,153,194 in 1959, an increase of $606,500 or 3.5 per cent. Provision for United States and foreign taxes on income was $8,400,000 for both years.

The statement of financial position as of December 31, 1960, showed current assets totaling $102,499,449 of which $24,307,329 was in cash and short term securities. Current liabilities were $31,580,264, leaving net working capital of $70,919,185.

Long term indebtedness increased $8,766,899 during 1960 to a total of $38,697,794, which includes $10,000,000 borrowed in connection with the new manufacturing venture mentioned on page 21, less payments on debt previously outstanding. Total assets increased during the year to $158,761,922 as compared with $135,865,205 at the end of 1959.

During 1960 the Company continued its regular quarterly cash dividends totaling 50 cents per share. Following the policy initiated in 1958, the Board of Directors in October of 1960 voted a stock dividend of 3 per cent, payable March 10, 1961, to stockholders of record on February 3, 1961.

At December 31, 1960, stockholders' equity amounted to $86,564,110 or $21.09 per share, as compared with $72,048,521 or $18.80 per share at December 31, 1959.

Proprietary Drugs

The Proprietary Drug and Retail Division of Rexall is the most complex division within the Company. It consists of several different kinds of manufacturing facilities, a system of warehouses, two retail drug companies, a candy and restaurant chain, and several overseas subsidiaries.

Rexall Products Are Sold World-Wide

Today, more than 2,500 products bearing the Rexall trademark or other trademarks owned by the Company are manufactured in the Company's St. Louis and Canadian laboratories. These products are distributed to more than 10,000 franchised Rexall drug store operators in the United States, approximately 1,500 in Canada and others in many parts of the world. Rexall products also are sold through two wholly owned retail drug chains.

Several important chains of drug stores became franchised Rexall dealers during 1960. Included are Gunning-Casteel, Inc. of El Paso, Texas, May's Drug Stores, Inc. of Cedar Rapids, Iowa, and Paine Drug Company of Rochester, New York. The Gray Drug Company of Cleveland, Ohio, a large Rexall dealer, brought 25 new outlets to the Company, adding that number of new stores to its already existing chain.

A Rexall Super Plenamin, the Company's best selling proprietary drug item, and the bottle in which Super Plenamins are packaged, share a distinctive appearance.

Aiding this expansion effort is the Rexall Realty Corporation, a partnership program sponsored by the Company. The purpose of this program, prompted by the population shift to the suburbs in recent years, is to help qualified individual pharmacists become the owners of Rexall drug stores in suburban shopping center locations.

Rexall Realty Helps Individual Pharmacist

Rexall Realty Corporation gives the individual pharmacist the financial backing and bargaining position he needs to qualify under favorable terms as a tenant in such locations. With its corps of experienced and technically skilled people Rexall also helps the pharmacist to equip, merchandise and operate a modern store until such time as he becomes its sole owner. This partnership program is of great benefit to the individual pharmacist since he eventually owns a modern and potentially profitable outlet in a relatively brief period of time.

This program has been under way for the past few years and as of December 31, 1960, there were 79 Rexall "partnership" stores in operation. A substantial number of leases have been signed for stores opening in 1961 and 1962.

MANUFACTURING OPERATIONS

Proprietary Drug manufacturing operations of the Company are based in Rexall's St. Louis Laboratories. A proprietary drug is distinguished from an ethical drug by the fact that it is advertised and usually sold without a prescription.

New Equipment Helps Cut Costs

During 1960 Rexall's St. Louis facility continued a program of automation designed to increase production and decrease cost. Here are some examples: (1) The liquid-filling line and the aerosol division were doubled in production capacity; (2) New electronically controlled tablet compressors were installed in the Laboratories, making possible production of multi-layered tablets.

The Laboratories work closely with the Research and New Product Development Department of the Company in Los Angeles. Out of this work have grown a number of new products which will be introduced during 1961. Included are Rexall Instant Protein, a natural protein concentrate that helps maintain energy; Rexall Morning Mist Lipstick, a moisturizing formula with true U. S. certified shades; Rexall Color Glory, a new cream formula hair tint; and Rexall Calmative Tablets, a new, non-prescription formula for relief of nervous tension.

New and more effective formulae also were perfected for such specialties as Rexall Super Anapac, a line of cold remedy products; Rexall Bisma-Rex, a stomach antacid; and Rexall Super Plenamins, the largest selling multiple vitamin-mineral product in the United States.

Rexall Advertising Backs Product Sales

Rexall backs its production and sale of drug store products with an extensive advertising program. In 1960 this program was the broadest in the history of the Company.

Last year, in January and April hour-long television spectaculars were presented. In March, spot participations were purchased on seven national television network programs. Twenty-five product advertisements appeared in national magazines between January and September. Full page and double page advertisements promoting Rexall One Cent Sales and other major events appeared in 380 Sunday newspapers by means of Sunday supplements such as "This Week Magazine," "Parade" and "Family Weekly."

Two advertisements were placed in "Life Magazine" during the year, both in color. One was six pages, the other four.

"National Velvet" Introduced To Public

On September 18, 1960, Rexall introduced a new television series—"National Velvet"—to the families of America. This new Rexall show appears on more than 200 TV stations on Sunday evenings and has an estimated audience of more than 10 million homes.

THE SEAMLESS RUBBER COMPANY

The Seamless Rubber Company serves the health and medical market with such items as surgeons gloves, hot water bottles and other products of a similar nature. This Company's products are sold nationally through specially trained hospital sales representatives. Seamless also produces a line of drug store health items such as fountain syringes, nasal aspirators, baby feeding products and a variety of adhesive tapes.

Seamless Produces Sports Equipment

A second field of activity is the manufacture of sports equipment. Included are swim caps, basketballs, footballs and many other sports items. "Nemrod by Seamless", a new line of skin diving equipment, was introduced in 1960.

For over 30 years Seamless has been active in supplying pressure-sensitive adhesive tapes to industry. They are made with backings of paper, cloth, plastics, glass and metal foils. Industrial tapes are used in the manufacture of electrical equipment, automobiles, trucks, airplanes and for many other purposes.

The Company also has perfected a polyethylene pipe wrap for the corrosion protection of oil, gas, chemical and water pipelines. Several installations were made on major pipelines during 1960.

United Cotton Moves Into Larger Plant

Two other companies operate under the direction of The Seamless Rubber Company. They are The Absorbent Cotton Company and the United Cotton Products Company. Absorbent Cotton is a manufacturer of cotton and gauze products for hospitals, and United Cotton Products is a manufacturer of abrasive materials for the metal industry. The latter moved into new and larger quarters during 1960, thus making increased space available for the manufacture of new products which the Company plans to put into production during 1961.

RETAIL OPERATIONS

Three retail chains operate within the framework of the Proprietary Drug and Retail Division. They are Liggett Drug Company, Inc., The Owl Drug Co. and Blum's.

Liggett Upgrades Outlets

As of December 31, 1960, the Liggett Drug Company, Inc. had 128 Company owned stores and 232 agency stores. (Agency stores are individually owned but franchised under the Liggett name.) Liggett stores are located primarily in New England, New York City and in the Southern States.

During the year there was little change in the total number of Company stores carrying the Liggett name. Twenty-three agency stores were added to the chain. Throughout the year Liggett continued to dispose of marginal stores and replace them with considerably larger shopping center locations, thus increasing the sales volume per outlet. Liggett intends to continue this policy during 1961.

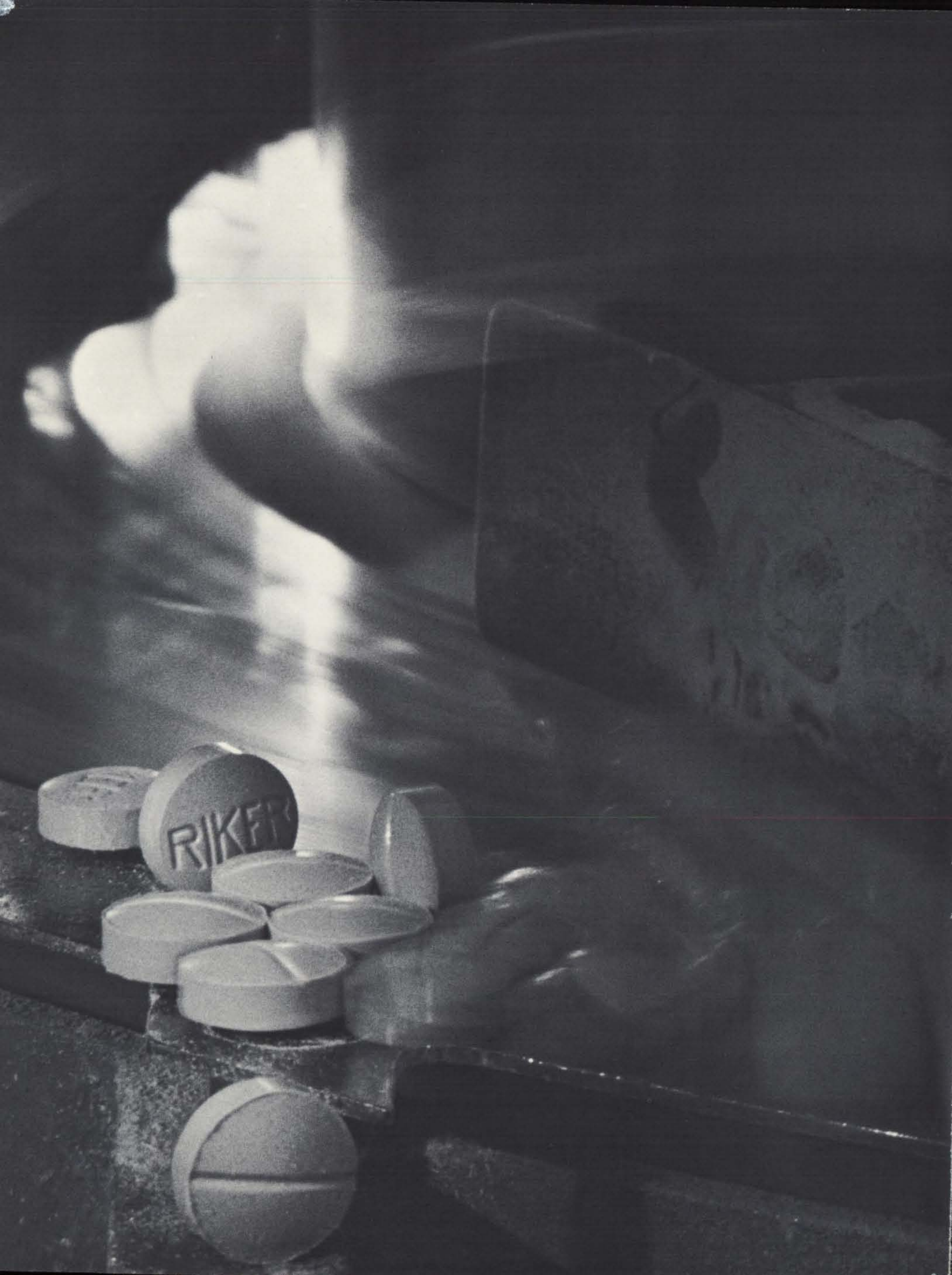
Owl Operates 31 Stores in West

The Owl chain is located mainly in California. During the past two years 31 Owl stores were closed or sold and 13 other stores were completely remodeled. At the end of 1960 Owl had 31 stores in operation, 23 of them operating under the new name, "Drug King", which Owl is using for its new or remodeled "direct shipment" outlets.

Blum's is the third of Rexall's retail operations. Candies manufactured by Blum's in San Francisco are marketed through Company owned stores in the San Francisco Bay area, Los Angeles and New York, as well as through selected department stores in major cities throughout the United States.

Blum's To Open New Outlet

Blum's also produces and markets pastry, and it is continuing to expand its restaurant operations in California. Ten of Blum's outlets are now combined operations, offering the customer fine foods, bakery products, candy and ice cream. Another of these outlets is expected to open in San Jose, California during 1961.


RIKER

Ethical Drugs

Riker Laboratories Inc., located in Southern California, is Rexall's Ethical Drug Division. Riker has become known for its staff of top-ranking scientists, its basic research and its product line of prescription drugs.

Products include Norflex, a drug for muscular spasms; Deaner, a nontoxic anti-depressant; Veriloid and Rauwiloid for the management of hypertension; Medihaler-Iso and Medihaler-Epi for the relief of bronchial asthma; Medihaler-Ergotamine for vascular headaches.

During 1960 Riker was enlarged and strengthened by the addition of two smaller pharmaceutical businesses. These were the Darwin-Harvard group of companies in Los Angeles, and SchenLabs, formerly a division of Schenley Industries, Inc.

Riker Strengthened By New Products

Darwin-Harvard brought many advantages to Riker. These included useful administrative and technical personnel, experience in producing liver extracts which are helpful to Rexall's Proprietary Drug Division and significant research leads on enzymes. Darwin-Harvard's best known product, Lipo-Hepin, is an anticoagulant used for various heart and blood conditions.

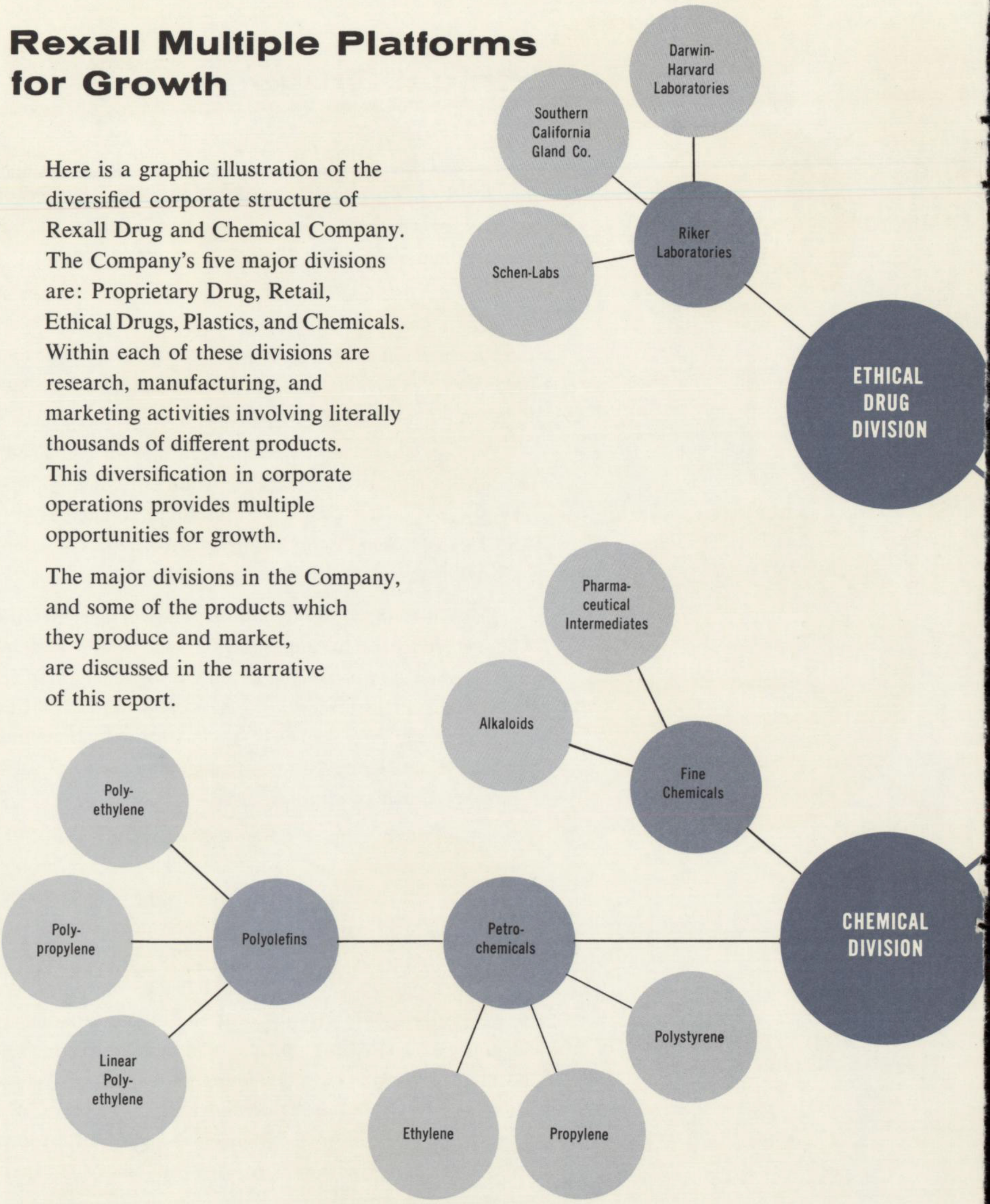
SchenLabs became a part of Riker in July 1960. From this organization Riker added a well seasoned group of detail men who call upon physicians and hospitals to provide information about Riker products. The new force of detail men, together with Riker's own steadily growing force, provides the Company with the capability to bring new products rapidly to the attention of the medical profession. Several well known drug products were acquired, including Titralac, a popular antacid, particularly for the relief of ulcer symptoms, and the Dorbane group of laxatives, which are particularly useful in connection with cardiovascular conditions, after surgery, and for various other special medical problems.

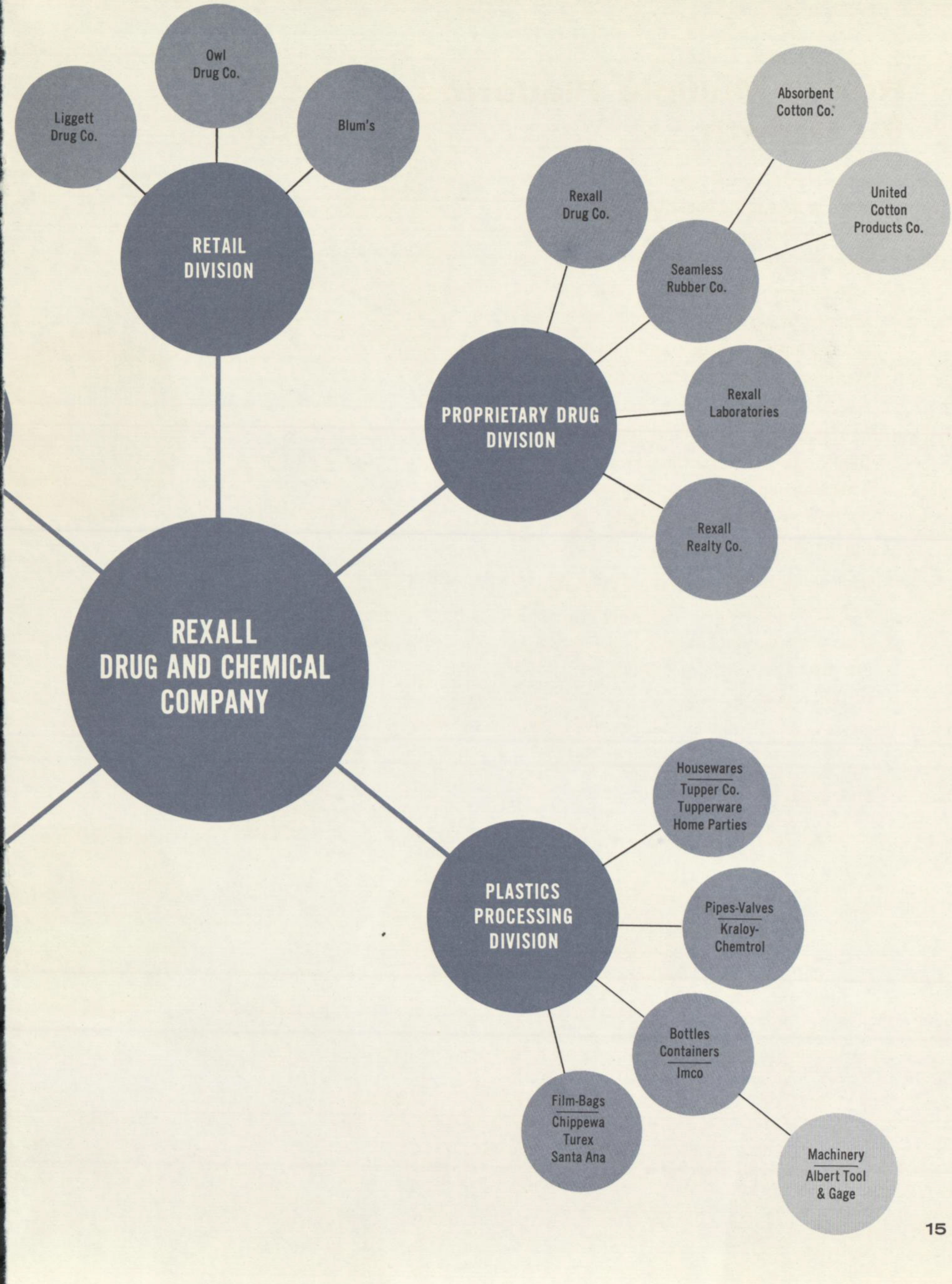
Norflex, Riker's well-known muscle relaxant, presents a study in motion as it rolls off a tableting machine at Riker's Laboratories in Northridge, California.

Rexall Multiple Platforms for Growth

Here is a graphic illustration of the diversified corporate structure of Rexall Drug and Chemical Company. The Company's five major divisions are: Proprietary Drug, Retail, Ethical Drugs, Plastics, and Chemicals. Within each of these divisions are research, manufacturing, and marketing activities involving literally thousands of different products. This diversification in corporate operations provides multiple opportunities for growth.

The major divisions in the Company, and some of the products which they produce and market, are discussed in the narrative of this report.


Darwin-Harvard Laboratories
Southern California Gland Co.
Riker Laboratories
Schen-Labs
ETHICAL DRUG DIVISION
Pharmaceutical Intermediates
Alkaloids
Fine Chemicals
CHEMICAL DIVISION
Polyethylene
Polypropylene
Polyolefins
Linear Polyethylene
Petrochemicals
Polystyrene
Ethylene
Propylene


Owl Drug Co.
Liggett Drug Co.
Blum's
RETAIL DIVISION
Absorbent Cotton Co.
Rexall Drug Co.
United Cotton Products Co.
Seamless Rubber Co.
PROPRIETARY DRUG DIVISION
Rexall Laboratories
Rexall Realty Co.
REXALL DRUG AND CHEMICAL COMPANY
Housewares
Tupper Co.
Tupperware Home Parties
PLASTICS PROCESSING DIVISION
Pipes-Valves
Kraloy-Chemtrol
Bottles Containers
Imco
Film-Bags
Chippewa
Turex
Santa Ana
Machinery
Albert Tool & Gage

A new non-narcotic medication for coughs known as "Ulo" was introduced by Riker in 1960. Rights to the drug, a product of Farbenfabriken Bayer of West Germany, and a number of other Bayer developments came to Riker as part of the SchenLabs acquisition.

New Construction Now In Progress

Because of the growing demand for Riker products, additional construction is now in progress at the laboratories. Future expansion needs have been safeguarded by the purchase of additional land adjacent to Riker's present facilities.

In 1960 important Riker events outside the United States include activation of Riker Laboratories (New Zealand) in Wellington; the growing success of Riker Laboratories (Australia) which was started in 1958; and the rapid and continuing growth of Riker Laboratories Limited (England).

Plastics Processing

The Plastics Processing Division of Rexall includes 14 manufacturing plants strategically located in 13 cities in the United States and Canada. This division manufactures plastic products for the home; a wide variety of plastic containers and "squeeze" bottles for the detergent, drug, cosmetic and allied industries; plastic film for packaging and for agricultural and construction use; plastic pipe, valves and fittings. It also has organized a mechanical research section for improving processing equipment.

Tupperware Is High Quality Houseware

Rexall's manufacturer of plastic housewares, the Tupper Company, is a multiple plant operation located in New England. The plants manufacture more than 100 plastic products for the home out of light weight, high quality polyethylene. The majority of the items are food serving and storage containers.

The clarity and strength of Rexall plastic film is shown as it is extruded and blown at Rexall's Santa Ana, California, plant.

Tupperware was first introduced to the market in 1945 and by 1947 it was widely known throughout the nation. Its simple lines, its light weight and its exceptionally high quality have made a tremendous impression on the homemakers of America. The patented Tupper Seal, an air-tight, moisture-proof, flexible cover is a unique feature which aids in preserving foods.

Quality Control Is Paramount At Tupper

Precision manufacturing is observed at the Tupper factories. Each individual Tupperware product is carefully checked and tested before packaging. The Tupper staff of engineers is continuously engaged in designing and creating new products which possess unique advantages.

Tupperware is sold exclusively on the Tupperware Home Party Plan. At headquarters in Orlando, Florida, Tupperware Home Parties Inc. has a small and skillful staff who coordinate the sales, advertising and promotion activities of its distributors, managers and many thousands of dealers throughout the United States, Canada and Puerto Rico. The dealers are guided by their managers and distributors. Tupperware's unusual features are demonstrated and sold at individual homes by the dealers. Colorful advertising, supported by a sales incentive program, including prizes for distributors, managers, dealers and hostesses, and constant recognition of the importance of all these people, are keys to the success of the Tupperware Home Party Plan. Near the end of 1960 and during the first quarter of 1961, Tupperware Home Parties was extended to England and Australia. First reports indicate a general acceptance in both countries.

IMCO Increases Production Capacity

Rexall's subsidiary for the manufacture of plastic bottles and containers, the IMCO Container Company, increased its production capacity during 1960. The demand for plastic containers for packaging drugs, cosmetics, toiletries and liquid detergents continues to grow and Rexall is in an excellent position to benefit from this growth.

Since production equipment used in IMCO's plastic bottle manufacturing cannot be purchased readily, the Company's Kansas City, Missouri, headquarters plant provides the facilities for a machinery construction program. The Albert Tool & Gage Co. Inc., another Kansas City subsidiary, is the creative instrument in this program.

Among IMCO's new products, recently introduced, is a unique double-walled plastic jar for the packaging of creams and salves. In 1961 IMCO expects to provide containers for the manufacturers of liquid laundry bleach, who recently announced their intention of packaging products in plastic.

Film Section Is Organized

Formation of a national film section in 1960 served to correlate the responsibility for production, sales, engineering and development of film products.

Rexall produces plastic film at three locations, two of which began operations during 1960. Most of Rexall's film products are used by the packaging industry. Consequently, development programs are in progress to expand the film product line into new products and fields.

Polyethylene Pipe Added to Kraloy Line

Kraloy-Chemtrol, which produces plastic pipe, valves and fittings, is a substantial producer of polyvinyl chloride pipe. Pipe sizes range from ⅜ to 12 inches in diameter. During the latter part of 1960 Kraloy added polyethylene pipe to its product line and plans to manufacture an increasing quantity of it during 1961.

Improvements in the Chemtrol line of pipe fittings are in progress through advanced engineering design, mold construction and tests. In the latter part of 1960 Kraloy-Chemtrol introduced a corrosion-resistant pump for safe handling of hot acids, alkalis, salts and solvents. This pump is on test at a number of chemical plants.

The newly organized mechanical research section concentrates on development of equipment and techniques for the manufacture of new and better products in all fields of plastics processing.

Chemical Division

In January 1960 Rexall Drug and Chemical Company consolidated all of its chemical activities into Rexall Chemical Division.

At that time Rexall had two fields of chemical activity: (1) the manufacture of polystyrene, a petrochemical used in packaging and in the manufacture of appliances, electronic equipment, building materials, toys and novelties and (2) fine chemicals, which are chemical products produced for the pharmaceutical industry.

On April 29, 1960, a joint agreement for the production of petrochemicals was announced by Paul Kayser, Chairman of the Board of El Paso Natural Gas Company, and Justin Dart, President of Rexall Drug and Chemical Company.

Joint Arrangement With El Paso Natural Gas Products Co.

They reported the joint arrangement would include plants at Odessa, Texas, for the production of olefins, polyolefins and chemicals. (An olefin is a single moleculed product such as ethylene, sometimes called a monomer. A polyolefin is a complex structure made of many molecules linked together, such as polyethylene.)

El Paso will supply the raw materials and will manufacture ethylene and propylene and Rexall will convert them into conventional polyethylene, linear polyethylene, polypropylene and other chemicals.

Initial capacity of the olefin plant is expected to be 180,000,000 pounds annually while the initial combined capacity of the polyolefin plants (for manufacture of both kinds of polyethylene and polypropylene) is expected to be more than 150,000,000 pounds annually.

Ground was broken on the Odessa project early in October, and the first of the plants, which will produce conventional polyethylene, is expected to be completed by

Strands of polystyrene enter a cooling vat. Polystyrene, widely used in industry, is now manufactured by Rexall in two locations and will be produced in a third before the end of the current year.

January 1, 1962. It will be followed by construction of facilities for producing linear polyethylene and polypropylene.

Paul Kayser Research & Sales Development Center

In August of 1960 Rexall and El Paso Natural Gas Products Company announced plans to construct research and office facilities together with pilot plants in Paramus, New Jersey. This laboratory has been named by the Rexall Board of Directors after Paul Kayser, Chairman of the Board of El Paso Natural Gas Company. The pilot plants will be used for development work on conventional polyethylene, linear polyethylene and other polyolefins. The office and research facility, which will have 50,000 square feet of space for laboratories, marketing, sales service and research offices, should become functional in the near future.

The production of polystyrene also moved ahead during 1960 and plans were announced before the end of the year for construction of a third polystyrene unit in the Chicago area. Polystyrene currently is produced at two locations, one in New England, the other a new facility in Southern California. The Chicago plant should be completed by the end of the fourth quarter of 1961, thus giving Rexall Chemical a polystyrene production center in each of the three major sections of the country.

Range of Styrene To Be Offered

Each plant will be capable of producing a complete range of styrene type polymers. Each embraces Rexall's concept of regional production units to provide fast delivery and specialized material production for customers in specific market areas.

Rexall also announced in December of 1960 it plans to sell a wide range of conventional and linear polyethylene prior to its own units coming on stream. All the basic materials to be sold have been selected with the aim in mind of providing Rexall with a line of polyethylene unsurpassed in the country.

The Chemical Division also has established a national sales organization. The United States has been divided into three sales regions—Eastern, Midwestern and Western, and regional managers appointed to be responsible for marketing functions in each. Each region will have warehouse facilities and specialty-product preparation facilities to fill specific needs of customers.

Rexall's fine chemical production is from two plants. They are Carnegies of Kearny, Kearny, New Jersey, and Carnegies of Welwyn, which is located in England.

Carnegies of Kearny manufactures various salicylates (the principal ingredient used in aspirin), methyl salicylate (oil of wintergreen), and various choline salts.

Carnegies Installs New Facilities

New facilities for the production of fine chemicals are now being installed at Carnegies of Welwyn. Scheduled for completion early in 1961, these facilities will improve Carnegies of Welwyn's already established reputation for the production of quality fine chemicals including adrenaline and adrenaline derivatives, bismuth salts, piperazine salts and alkaloids such as brucine, caffeine, strychnine and quinine.

Statement of Financial Position

ASSETS

			1960	1959
CURRENT ASSETS				
Cash			$ 22,548,148	$ 15,208,342
Short term securities at cost and redemption amount			1,759,181	960,021
			24,307,329	16,168,363
Accounts and notes receivable, less reserves of $1,072,414 in 1960 and $975,988 in 1959				
Trade, including subsidiaries not consolidated			25,084,912	22,177,891
Others			4,486,905	3,037,020
Inventories, at cost or market whichever lower				
	1960	1959		
Raw materials and supplies	$ 7,961,337	$ 7,029,494		
Work in process	3,183,371	2,506,529		
Finished merchandise	37,475,595	39,200,895	48,620,303	48,736,918
Total current assets			102,499,449	90,120,192
INVESTMENTS, ADVANCES AND NONCURRENT RECEIVABLES				
Investments in and advances to United States subsidiaries not consolidated (Rexall equity in net assets $2,669,000 in 1960 and $1,744,000 in 1959)			2,525,451	1,726,302
Due from sale of retail stores and other properties			2,150,321	1,644,482
Due from officers and employees under stock purchase plan			197,911	351,111
Other receivables, deposits and investments			1,988,709	1,328,621
			6,862,392	5,050,516
PROPERTY ACCOUNTS, AT COST				
Land			1,699,769	1,878,386
Buildings and building fixtures			14,999,906	15,031,586
Machinery and equipment			29,397,299	24,744,200
Store fixtures, leaseholds and improvements			11,106,733	12,646,566
Construction in progress			2,934,755	2,272,080
			60,138,462	56,572,818
Less accumulated depreciation			24,669,500	23,491,848
			35,468,962	33,080,970
INSURANCE, TAXES, RENT AND OTHER DEFERRED CHARGES			1,772,305	1,376,473
INTANGIBLES				
Excess of investments in businesses purchased over net assets acquired			7,647,425	5,693,481
Patents (less amortization), licenses, trademarks, etc.			4,511,389	543,573
			12,158,814	6,237,054
			$158,761,922	$135,865,205

See accompanying notes to financial statements.

AND ITS CONSOLIDATED SUBSIDIARIES

December 31, 1960 and 1959

LIABILITIES

	1960	1959
CURRENT LIABILITIES		
Notes payable to banks		$ 2,250,000
Accounts payable	**$ 13,086,622**	12,941,522
Accrued wages, salaries and taxes thereon	**5,199,800**	5,103,073
Other accrued expenses	**6,038,426**	5,977,412
Current instalments of long term indebtedness	**1,230,675**	1,329,648
Estimated United States and foreign taxes on income for current and prior years	**6,024,741**	5,642,028
Total current liabilities	**31,580,264**	33,243,683
LONG TERM INDEBTEDNESS —less current instalments shown above		
Unsecured notes, 3⅜% to 5¾%, due in instalments 1961 to 1982	**36,851,000**	27,977,000
Real estate and equipment obligations	**1,846,794**	1,953,895
	38,697,794	29,930,895
DEFERRED UNITED STATES AND FOREIGN TAXES ON INCOME	**950,000**	450,000
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	**969,754**	192,106
STOCKHOLDERS' EQUITY		
Capital stock of Rexall Drug and Chemical Company Authorized, 10,000,000 shares, par value $2.50 each Issued, 4,135,960 shares in 1960 and 3,865,371 in 1959	**10,339,900**	9,663,428
Capital in excess of par value per accompanying statement	**28,740,831**	17,008,952
Retained earnings per accompanying statement (Of the 1960 amount $4,558,326 is reserved for a 3% stock dividend of 123,198 shares payable March 10, 1961)	**47,786,617**	45,690,816
	86,867,348	72,363,196
Less cost of reacquired capital stock, 31,563 shares in 1960 and 32,732 shares in 1959	**303,238**	314,675
Total stockholders' equity	**86,564,110**	72,048,521
	$158,761,922	$135,865,205

Statement of Earnings and Retained Earnings

	1960	1959
Sales, less returns, allowances and discounts	$242,557,169	$227,015,721
Deduct:		
Cost of goods sold	148,426,624	137,591,728
Selling, distribution, promotional and administrative expenses	70,768,760	67,160,448
Depreciation	3,799,823	3,519,963
Interest on indebtedness	1,802,268	1,590,388
	224,797,475	209,862,527
Earnings before taxes on income	17,759,694	17,153,194
Provision for United States and foreign taxes on income	8,400,000	8,400,000
Net earnings for the year	9,359,694	8,753,194
Retained earnings at beginning of year	45,690,816	41,162,825
	55,050,510	49,916,019
Less:		
Cash dividends, 50¢ per share	2,002,185	1,840,954
Stock dividends, 3%, 115,010 shares at $45.75 per share paid in March 1960 and 103,663 shares at $23 per share paid in March 1959	5,261,708	2,384,249
	7,263,893	4,225,203
Retained earnings at close of year	$ 47,786,617	$ 45,690,816

See accompanying notes to financial statements.

Statement of Capital in Excess of Par Value

	1960	1959
At beginning of year	$ 17,008,952	$ 12,249,504
Excess of fair value over par value of capital stock issued as stock dividends, 115,010 shares in 1960 and 103,663 shares in 1959	4,974,183	2,125,092
Excess of fair value over par value or cost of 146,200 shares in 1960 and 80,980 in 1959 of capital stock (partly reacquired stock) exchanged for capital stock or net assets of companies acquired	6,644,359	2,576,981
Other credits	113,337	57,375
At close of year	$ 28,740,831	$ 17,008,952

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

BASIS OF CONSOLIDATION: All wholly owned domestic and foreign subsidiaries and two majority owned domestic subsidiaries are consolidated. The minority interest in ownership of the latter companies is shown separately in the statement of financial position. The minority interest in income is insignificant. Accounts of Canadian subsidiaries are included at par; the other foreign accounts (principally English) are translated into U. S. dollar equivalents at quoted yearend exchange rates.

On December 29, 1960, Rexall sold an 18.75% interest in a wholly owned subsidiary to El Paso Natural Gas Products Company, a subsidiary of El Paso Natural Gas Company, and granted options for the sale of an aggregate additional 31.25% interest over a two year period ending December 31, 1962. The ethical pharmaceutical division of Schenley Industries, Inc., and several other smaller businesses were acquired in 1960. The sales and net earnings or losses of these companies are included in the consolidated accounts for the respective periods of Rexall ownership. The excess of Rexall's investment, the fair value of the 146,200 shares of capital stock (partly reacquired stock) issued in exchange for the capital stock or net assets of the purchased businesses, over the net assets acquired, mostly current assets, licenses and trademarks, amounted to $2,238,806. In accordance with the practice followed in prior years with respect to similar items, which are set forth separately in the statement of financial position, this amount is not being amortized.

JOINT OPERATING AGREEMENT: In 1960 Rexall entered into a joint operating agreement with El Paso Natural Gas Products Company for the future production and marketing of olefins, polyolefins and other chemicals. Construction of plant facilities has commenced. The agreement provides that Rexall and El Paso shall each own an undivided one-half interest in the land, buildings, improvements, fixtures, machinery, equipment, materials and personal property used in connection with the chemical plants to be constructed. At December 31, 1960, the cost of Rexall's undivided one-half interest in such assets amounted to $1,732,655 and is included in Construction in Progress in the accompanying statement.

Rexall's share of the total cost of the ethylene and conventional polyethylene facilities to be completed early in 1962 is estimated to be $21,000,000. It is anticipated that additional plants to produce propylene, linear polyethylene and polypropylene will be constructed in 1963 and 1964. To finance most of its share of the estimated cost of all joint operating facilities contemplated under the El Paso contract, Rexall has entered into loan agreements with a group of major insurance companies for an aggregate issue of $35,000,000 in unsecured notes due in 1982. Under these financing agreements dated as of December 31, 1960 Rexall has borrowed $10,000,000 and will borrow the balance in late 1961 and 1962. The $10,000,000 proceeds received in February 1961 were applied to the payment of $10,000,000 of unsecured 1960 bank loans due in 1962. This application has been reflected in the accompanying statement of financial position as at December 31, 1960.

TAXES ON INCOME: Claims for refund of United States taxes were filed in 1953 based upon the contention that the excess profits tax credits should be increased for the years 1940 to 1945, inclusive. In connection with such claims, waivers have been executed and are still outstanding as to certain such years. While final action has not yet been taken on the claims, the Treasury Department has made protective assessments of additional income taxes for 1942, 1943 and 1944 based principally upon substantial reductions claimed in the amount of income subject to excess profits taxes in those years. If the proposed adjustments giving rise to the protective assessments are approved, the reduction in excess profits taxes will substantially exceed the related income tax assessed, whereas disapproval of the proposed adjustments would substantially eliminate the basis for the additional income tax assessments. No amounts have been included in the financial statements with respect to these claims or the protective assessments.

Deferred taxes on income applicable principally to additional depreciation deducted for tax purposes increased during the year and has been classified separately in the statement of financial position. The comparable amount for 1959 is also shown separately.

STOCK OPTIONS: Pursuant to a stock option plan adopted in 1957 and amended in 1959 and 1960 with stockholder approval, and under options granted in 1956, a total of 480,000 shares of capital stock of the Company were reserved for purchase by officers and employees under options granted or to be granted. The option price is the market price of the stock on the date options are granted. The options are not assignable and are generally exercisable cumulatively in ratable amounts over a period of ten years. The number of shares in all outstanding options are increased ratably with no change in the aggregate dollar amounts upon payment of stock dividends. Options for 7,677 shares were exercised prior to 1960. A summary of changes in stock options during 1960 is set forth below:

	Options Granted		*Options Exercisable*	
	Shares	*Amount*	*Shares*	*Amount*
Balance at beginning of year	210,715	$4,625,338	17,819	$199,693
Adjustment for stock dividend paid	9,127	–	534	–
Options which were granted or became exercisable during year	163,000	7,036,312	22,224	475,508
Options exercised	(10,579)	(139,547)	(10,579)	(139,547)
Options cancelled	(43,407)	(1,623,156)	–	–
Balance at end of year	328,856	$9,898,947	29,998	$535,654

At December 31, 1960 there were 145,250 shares for which options could be granted. In January 1961 options for 8,000 shares for an aggregate amount of $367,500 were granted.

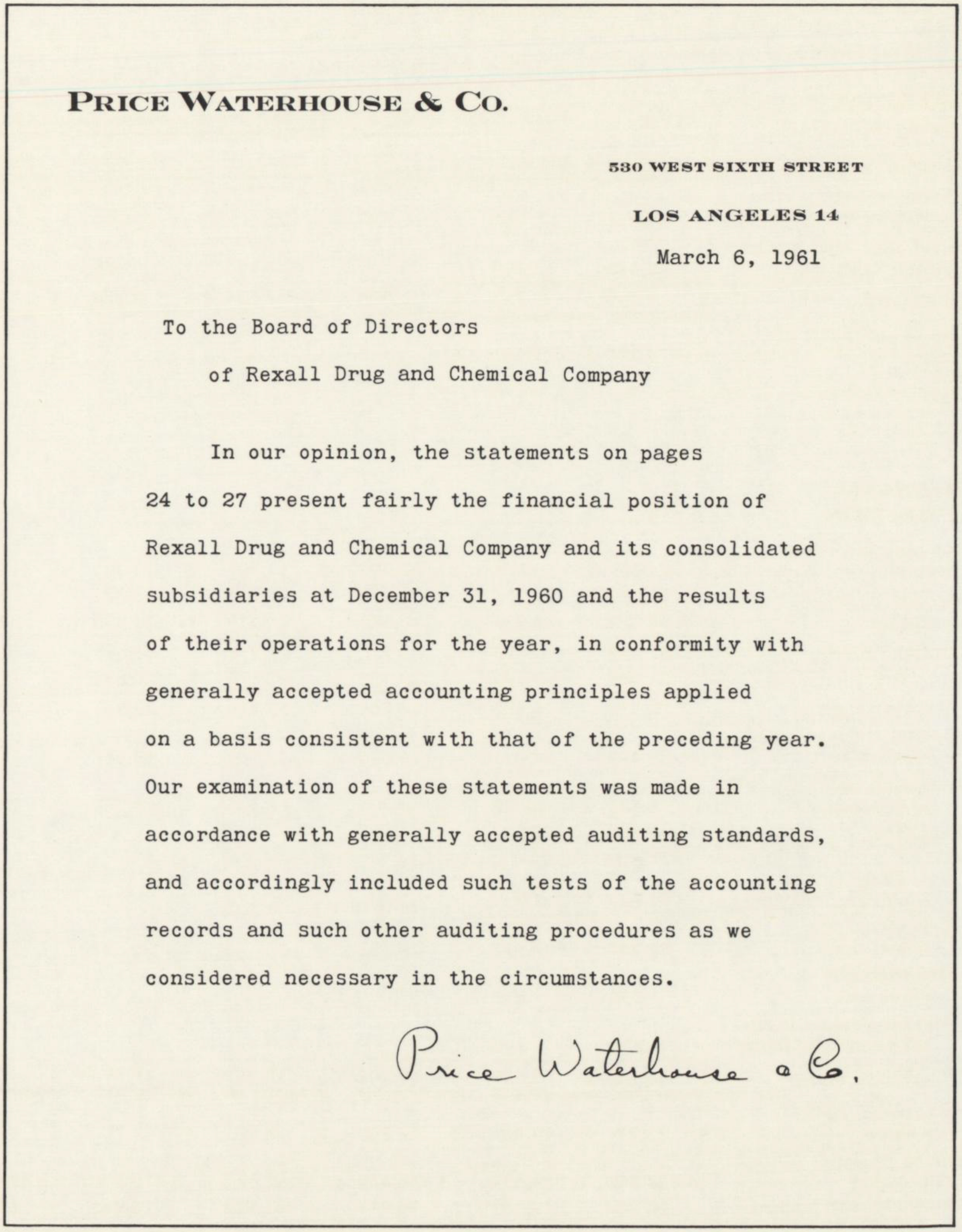
EARNINGS AVAILABLE FOR DIVIDENDS: Under agreements dated December 31, 1960 covering long term indebtedness $4,000,000 of the $47,786,617 of retained earnings at December 31, 1960 is not restricted as to payment of cash dividends. The agreements impose no restriction on the payment of stock dividends.

LEASE LIABILITIES: At December 31, 1960 the Company and its consolidated subsidiaries were committed under some 296 leases of real property expiring more than three years after that date with minimum annual rentals of approximately $5,172,000. Approximately one percent of this amount relates to leases expiring more than 25 years after December 31, 1960.

In addition, subsidiary companies have leased (most with options to purchase) store fixtures for periods of six and a half years or more, in most cases at aggregate basic rentals which over the lease periods approximate the cost of the fixtures plus carrying charges. The present total annual rental payable is approximately $1,257,700.

Rentals for automobiles leased for periods extending beyond December 31, 1963 amounted to $727,000 per year at December 31, 1960.

Independent Auditors Report



PRICE WATERHOUSE & CO.

530 WEST SIXTH STREET
LOS ANGELES 14

March 6, 1961

To the Board of Directors
of Rexall Drug and Chemical Company

In our opinion, the statements on pages 24 to 27 present fairly the financial position of Rexall Drug and Chemical Company and its consolidated subsidiaries at December 31, 1960 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

Statistical Summary

in thousands of dollars

FINANCIAL OPERATIONS	1960	1959	1958	1957	1956	1955
Net sales	**$ 242,557**	$ 227,016	$ 182,371	$ 167,567	$ 155,633	$ 153,465
Earnings before income taxes	**17,760**	17,153	11,605	9,214	9,074	8,916
United States and foreign income taxes	**8,400**	8,400	5,300	4,600	4,600	4,850
Net earnings	**$ 9,360**	$ 8,753	$ 6,305	$ 4,614	$ 4,474	$ 4,066
Earnings per share of capital stock	**$ 2.33***	$ 2.30*	$ 1.91*	$ 1.45	$ 1.35	$ 1.19

**Based upon the average of shares outstanding during the year.*

FINANCIAL POSITION	1960	1959	1958	1957	1956	1955
Cash and short term securities	**$ 24,307**	$ 16,168	$ 20,003	$ 14,431	$ 14,533	$ 17,830
Accounts receivable	**29,572**	25,215	20,054	17,726	16,722	15,005
Inventories	**48,620**	48,737	43,870	40,119	35,436	34,563
Current assets	**102,499**	90,120	83,927	72,276	66,691	67,398
Less, current liabilities	**31,580**	33,243	29,172	22,178	20,840	19,718
Working capital	**70,919**	56,877	54,755	50,098	45,851	47,680
Property, machinery and equipment (net)	**35,469**	33,081	26,015	20,162	18,207	17,639
Investments, advances, prepaid expenses, etc.	**8,635**	6,427	5,304	4,645	6,070	4,653
Intangibles	**12,159**	6,237	4,489			
Less:						
Real estate and equipment obligations	**1,847**	1,954	2,058	978	811	883
Other long term indebtedness	**36,851**	27,977	29,103	23,376	20,622	22,020
Deferred taxes on income	**950**	450				
Minority interest in consolidated subsidiaries	**970**	192				
Stockholders' equity	**$ 86,564**	$ 72,049	$ 59,402	$ 50,551	$ 48,695	$ 47,069
Stockholders' equity, per share	**$ 21.09**	$ 18.80	$ 17.20	$ 15.89	$ 14.71	$ 13.72
Number of shares of stock outstanding	**4,104,397**	3,832,639	3,454,449	3,181,673	3,310,756	3,429,732
Number of stockholders	**20,287**	19,151	16,911	15,852	15,865	15,807

Amounts for 1959 and 1960 include additional foreign subsidiaries.